BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company for Authority to Transfer Cushion Gas in its Aliso Canyon and La Goleta Storage Fields to Alleviate the Impact of High Gas Prices on CARE Customers. (U 904 G)	A.05-10-012

OPENING BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

The Division of Ratepayer Advocates ("DRA") files this Opening Brief pursuant to Rule 75 of the Rules of Practice and Procedure and the schedule established by Administrative Law Judge Wong.

On October 11, 2005, Southern California Gas Company (SoCalGas) filed Application 05-10-012 requesting the Commission's approval to reclassify working gas of 4 Bcf of cushion gas, transfer the 4 Bcf at book cost to the core gas portfolio for eventual sale in bundled gas service[1], and allocate the benefits to CARE customers.

During the first phase of this proceeding, the Commission, in D.05-11-027, authorized SoCalGas to reclassify the 4 Bcf of cushion gas as working gas, to withdraw the gas, and to transfer the gas in kind to SoCalGas' CARE customers at book value. The Commission also authorized SoCalGas to include all of the project costs in rate base and to recover the associated revenue requirement from CARE customers. The Commission

[1] Initially, SoCalGas proposed to transfer revenue benefits to noncore, but has since changed its request.

deferred any revenue related issues associated with the 4 Bcf storage capacity to the instant part of the proceeding.

As a result of the mild 2005-2006 winter and lower than expected gas prices, CARE customers used only 1.25 Bcf of the authorized 4 Bcf. Thus, 1.25 Bcf of additional storage capacity has been created. The Commission authorized SoCalGas to bank the remaining 2.75 Bcf for the benefit of CARE customers for future winters.

In the instant, final phase of this proceeding, the following two issues remain: 1) whether non-core customers benefit from the additional gas storage capacity created by the rework of that the Commission authorized and 2) how the revenues from the sale of the additional 1.25Bcf of gas capacity should be treated. DRA concludes that given that CARE customers will pay the costs of the additional capacity and only a portion of the inventory is available, it is reasonable to allocate the inventory created to core customers. DRA agrees with SoCalGas that the additional storage inventory created by the conversion of cushion gas to working gas be allocated to SoCalGas' core customers until SoCalGas' next Biennial Cost Allocation Proceeding (BCAP).

II. DISCUSSION

SoCalGas had originally considered allocating the extra storage inventory to noncore instead of core customers even though it proposed the cost responsibility remain with CARE core customers. This was a somewhat unbalanced concept since the CARE customers carried the cost responsibility, while the noncore customers or other marketers could pay a market rate for it through the unbundled storage auction. However, in its testimony filed on the issue, SoCalGas recommended that the additional inventory created be allocated to core customers while CARE customers would remain responsible for the costs given they got the cushion gas benefits. SoCalGas maintains that the additional storage capacity will benefit core customers by reducing gas commodity costs. Also, CARE customers are responsible for paying for the project costs, and since they are a significant subset of core customers, SoCalGas proposed to allocate the extra storage to core customers.

Southern California Generation Coalition (SCGC) and Southern California Edison (SCE) oppose SoCalGas' request to transfer the benefits from the extra storage capacity to core customers. SCGC suggests that SoCalGas market the storage capacity through its unbundled storage program and apply the revenues exclusively to CARE customers.[2] SCGC opposes any benefit from this project flowing to non-CARE core customers.

SCE asserts that noncore customers need the extra storage capacity and the Commission should allocate the capacity to them. SCE reasons that noncore customers need the storage capacity available to meet currently unmet demand.[3] SCE bases its reasoning on the most reason open season where SoCalGas had inventory bids greater than its capacity.[4]

As an initial matter, neither the SCE nor SCGC proposals guarantee that noncore customers will even be allocated any storage inventory capacity. This is because the capacity would be marketed through the unbundled storage program. There are not only noncore customers that participate in this market, but also independent marketers and financial institutions. Therefore, marketing the capacity through the unbundled storage program does not guarantee that noncore customers will get the inventory capacity.

DRA assessed the value that the additional 1.25 Bcf storage capacity created and the relative benefit of that capacity to the core or noncore customers. Additional storage capacity has benefits for core customers, especially given the fact that the CARE core customers are already responsible for the facility costs. As a physical hedge, having additional gas storage inventory during these times where the gas prices are volatile is beneficial.

SoCalGas requested and was granted Commission approval to spend millions to hedge gas prices for core customers last winter. Given that the CARE core customers are already paying the costs of the additional storage inventory, then the core customers should be allocated the inventory which will serve an additional hedge against high winter gas prices. Ultimately, the value of the storage inventory is no more valuable to

[2] See Testimony of Catherine E. Yap at 2.
[3] See Testimony of Dr. Michael Alexander at 5.
[4] *Id.*

noncore customers relative to core customers. Given the additional factors that the CARE customers are already paying for the capacity and that the Commission approved SoCalGas request to hedge gas prices for core customers last winter, both serve to support the allocation of the additional storage inventory to core customers.

DRA recommends the extra storage capacity be transferred to core because it will benefit both CARE and non-CARE customers. Even though the CARE customers paid for the capacity, they also received all the benefits of the cushion gas. Under normal conditions, the non-CARE core customers would have been allocated some benefits associated with the cushion gas. In this instance, this was not the case, and the benefits associated with the remaining 2.75 BCF of cushion gas will flow exclusively to CARE customers.   Therefore, the fact that all core customers would be able to use the storage inventory created, which is currently only a mere 1.25 BCF is not unreasonable or unduly discriminatory Finally, this allocation is not permanent, and only would only remain in effect until SoCalGas' next BCAP proceeding.

III. CONCLUSION

In conclusion, DRA recommends that the Commission approve SoCalGas' request and allocate the extra storage inventory capacity to core customers.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **"OPENING BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES"** in **A.05-10-012** by using the following service:

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Executed on April 14, 2006, at San Francisco, California.

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Martha Perez

N O T I C E

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